

**SHELBY COUNTY SCHOOL DISTRICT**

**BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION,  
AND INDEPENDENT AUDITOR'S REPORTS**

**YEAR ENDED JUNE 30, 2008**

**SHELBY COUNTY SCHOOL DISTRICT  
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# BROWN & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

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William G. Brown, CPA - W. Gilbert Brown III, CPA

### INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education  
Shelby County School District  
Shelbyville, Kentucky 40065

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units, and the remaining fund information of Shelby County School District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Shelby County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, Appendix I to the Independent Auditor's Contract – General Audit Requirement, Appendix II to the Independent Auditor's Contract – State Audit Requirement, and Appendix III to the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major fund, and aggregate discretely presented component units, and remaining fund information of the Shelby County School District, as of June 30, 2008, and the respective changes in financial position, and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2008, on our consideration of the Shelby County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 40, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Shelby County School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Shelby County School District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Brown & Company CPA's*

Bardstown, Kentucky  
November 6, 2008

**SHELBY COUNTY SCHOOL DISTRICT –SHELBYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2008**

This section of the financial statements for the Shelby County Public School District presents management’s discussion and analysis of the financial performance of the Shelby County School District during the fiscal year that ended on June 30, 2008. As management of the District, we offer readers of the financials statements this narrative overview and analysis to highlight and further explain the financial events that have taken place in the past year. We encourage readers to consider the information presented herein along with the District’s financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

- The General Fund had \$47.4 million in revenues, which primarily consisted of funding through the state’s Support Education Excellence in Kentucky (SEEK) program and revenues from taxes, which include property taxes, motor vehicle taxes, and utilities taxes. This compares to \$43.6 million in General Fund revenues for the prior year.
- Net General Fund SEEK revenue for the year was \$20.7 million, compared to \$18 million for the prior year. This represents a 14.7% increase over the previous year funding level.
- The District levied tax rates of 63.7 cents (real estate), 66.4 cents (tangible property), and 42.1 cents (motor vehicles) per \$100 of assessed value, and continued the 3% utility tax.
- During the school year, the District initiated site work for a new school campus on which three (3) schools eventually will be built. The site work project is expected to cost \$4.5 million when completed in 2009. The first of the new school projects, a secondary school projected to cost \$51 million when completed in 2010 will initially accommodate the District’s 8<sup>th</sup> and 9<sup>th</sup> grade students. It will later become the second high school.
- Other significant construction, renovation, and repair projects initiated during the year were for roofing at Shelby County High School and Simpsonville Elementary School, expanded parking at Heritage Elementary School, and replacement of the boilers at Shelby County High School. In addition, the District began the preliminary phase of a renovation project at East Middle School, which will encompass HVAC (including geothermal heating and cooling), lighting, flooring, wiring, and technology upgrades.
- The District did not acquire or dispose of land in the fiscal year that ended June 30, 2008.
- No bonds were issued during the fiscal year that ended June 30, 2008. Bonds are issued as the District constructs or renovates facilities consistent with a long-range facilities plan established with community input and in keeping with stringent compliance requirements of the Kentucky Department of Education (KDE). Bonds for the school construction projects are expected to be issued in the 2008/2009 school year.
- During the current fiscal year, the District’s portion of the bonded indebtedness was decreased by \$3,216,781, including principal of \$1,622,658 and interest of \$1,594,123.
- Excluding interfund transfers, General Fund expenditures totaled \$46.5 million.

**SHELBY COUNTY SCHOOL DISTRICT – SHELBYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2008**

**OVERVIEW OF FINANCIAL STATEMENTS**

This annual report consists of four parts –management’s discussion and analysis, the basic financial statements, notes to the basic financial statements, and required supplementary information.

1. **Management’s Discussion and Analysis:** The MD&A consists of the previous page and subsequent pages in this section that provide an outline of the financial statements, including specific results and an explanation of the financial statement presentation.
2. **Basic Financial Statements:** The basic financial statements include two kinds of statements that present different views of the District:
  - **Government-wide Financial Statements:**
    - **Statement of Net Assets and Statement of Activities:** These two financial statements provide both short-term and long-term information about the District’s *overall* financial status.
  - **Fund Financial Statements:**
    - The remaining statements are various fund financial statements that focus on *individual parts* of the District, reporting the District’s operations in more detail than the government-wide statements. More information about the various types of funds is included later but, in general, the funds and their purposes are:
      - **Governmental funds** – Basic services like regular and special education are accounted for in these funds. The governmental funds include the General Fund, the Special Revenue Fund, the Construction Fund, and other governmental funds. The governmental funds statements tell how these basic services were financed in the short term as well as what remains for future spending.
      - **Proprietary funds** – Certain activities, such as food services, before- and after-school programs, and summer activity programs, are operated by the District like a business. The proprietary funds statements offer short- and long-term financial information about the activities of these funds.
      - **Fiduciary funds** – The District acts, primarily for scholarships and school activity fund accounts, solely as a trustee or agent for the benefit of others. The fiduciary funds statements provide information about these financial relationships.
      - **Fiduciary funds** – The District acts, primarily for scholarships and school activity fund accounts, solely as a trustee or agent for the benefit of others. The fiduciary funds statements provide information about these financial relationships.
3. **Notes to the Basic Financial Statements:** The financial statements include notes that explain some of the information in the statements and provide more detailed data.

**SHELBY COUNTY SCHOOL DISTRICT – SHELBYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2008**

**4. Supplementary Information:** The financial statements include a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year.

**Types of Financial Statements**

The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

**Government-wide Financial Statements**

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all the District’s assets and liabilities. The current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District’s net assets and how they have changed. Net assets—the difference between the District’s assets and liabilities—are one way to measure the District’s financial health or position. Over time, an increase or decrease in the District’s net assets is an indicator of whether its financial position is improving or deteriorating, respectively.

In the government-wide statements, the District’s activities are divided into two categories:

- *Governmental activities*—Most of the District’s basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.
- *Business-type activities*—The District charges fees to help cover the costs of certain services it provides. The District’s food services, before- and after-school programs, and summer activity programs are included here.

Fiduciary funds, by definition, are held by the District for others, so these funds are not part of the government-wide financial statements, since only the assets and liabilities of the *District* are included in the government-wide financial statements.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District’s funds, focusing on its most significant or “major” funds—not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for specific purposes (like the Construction Fund) or to show that it is properly using certain revenues (like the Building Fund, Capital Outlay Fund, and Special Revenue Fund). The District has three kinds of funds:

- *Governmental funds*—Most of the District’s basic services are included in governmental funds, which generally focus on (1) the flow of cash and other financial assets that can readily be converted to cash and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine the financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information with the governmental funds statements that explains the relationship (or differences) between them.

**SHELBY COUNTY SCHOOL DISTRICT – SHELBYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2008**

- *Proprietary funds*—Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. In fact, the District’s enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District uses internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the District’s other programs and activities.
- *Fiduciary funds*—The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the school activity funds. The District is responsible for ensuring that assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. As noted previously, we exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Net assets may serve over time as a useful indicator of the District’s financial position. The largest portion of the District’s net assets reflects its investments in capital assets, such as land and improvements, buildings and improvements, vehicles, furniture and equipment, and construction in progress, less any related debt used to acquire those assets that remains outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending.

The District’s financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. Net assets are summarized in Table 1.

Table 1  
Shelby County Public School District  
Net Assets  
June 30, 2008

	Governmental Activities 2008	Business Type Activities 2008	School District Total 2008
Current and other assets	29,120,694	785,409	29,906,103
Capital Assets	70,562,910	455,602	71,018,512
Total Assets	\$99,683,604	\$1,241,011	\$100,924,615
Long-term liabilities outstanding	32,130,247	-	32,130,247
Other liabilities	2,932,805	51,659	2,984,464
Total liabilities	\$35,063,052	\$51,659	\$35,114,711
Net assets:			
Invested in capital assets, net of related debt	37,151,734	455,602	37,607,336
Restricted	-	-	-
Unrestricted	27,468,818	733,750	28,202,568
Total Net Assets	\$64,620,552	\$1,189,352	\$65,809,904

**SHELBY COUNTY SCHOOL DISTRICT – SHELBYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2008**

**Comments on Budget Comparisons**

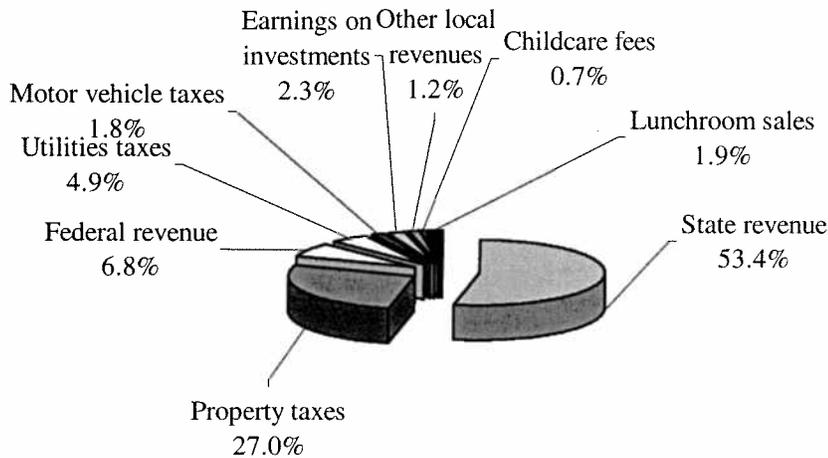
- Revenues: General Fund revenues were \$47.4 million for the fiscal year ended June 30, 2008, excluding interfund transfers and proceeds from the sale of assets. This includes payments (\$8.3 million) made by the state on behalf of the District, which are unbudgeted in accordance with directions from the Kentucky Department of Education. The most significant “on behalf” payments were for employee health insurance and for Teachers’ Retirement match. General Fund revenue exceeded budgeted revenue by \$240,000, excluding on behalf payments, transfers, and sale of assets.
  
- Expenses: General Fund expenses were \$46.5 million for the year. Budgeted expenses were \$44.1 million but, as with revenues, the “on behalf” payments (\$8.3 million) made by the state are not budgeted. When this amount is excluded from actual expenditures, the District’s expenses were \$38.2 million, compared with budgeted expenses of \$44.1 million. The District had \$4.3 million remaining in budgeted contingency at year-end.

**SHELBY COUNTY SCHOOL DISTRICT – SHELBYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2008**

Table 2  
Shelby County Public School District  
Revenues  
For the year ended June 30, 2008

	Governmental Activities	Business Type Activities	School District Total	Pct.
Taxes				
Property Taxes	17,098,790	-	17,098,790	27.0%
Motor Vehicle Taxes	1,122,648	-	1,122,648	1.8%
Utility Taxes	3,082,238	-	3,082,238	4.9%
Investment Earnings	1,426,248	28,605.41	1,454,853	2.3%
Other local revenues	782,014	3,090	785,104	1.2%
State revenue	33,780,412	30,778	33,811,190	53.4%
Federal revenue	2,798,040	1,499,943	4,297,983	6.8%
Lunchroom sales	-	1,188,270	1,188,270	1.9%
Childcare fees	-	460,066	460,066	0.7%
	<b>\$60,090,390</b>	<b>\$3,210,752</b>	<b>63,301,142</b>	<b>100.0%</b>

**2007/2008 Revenues**

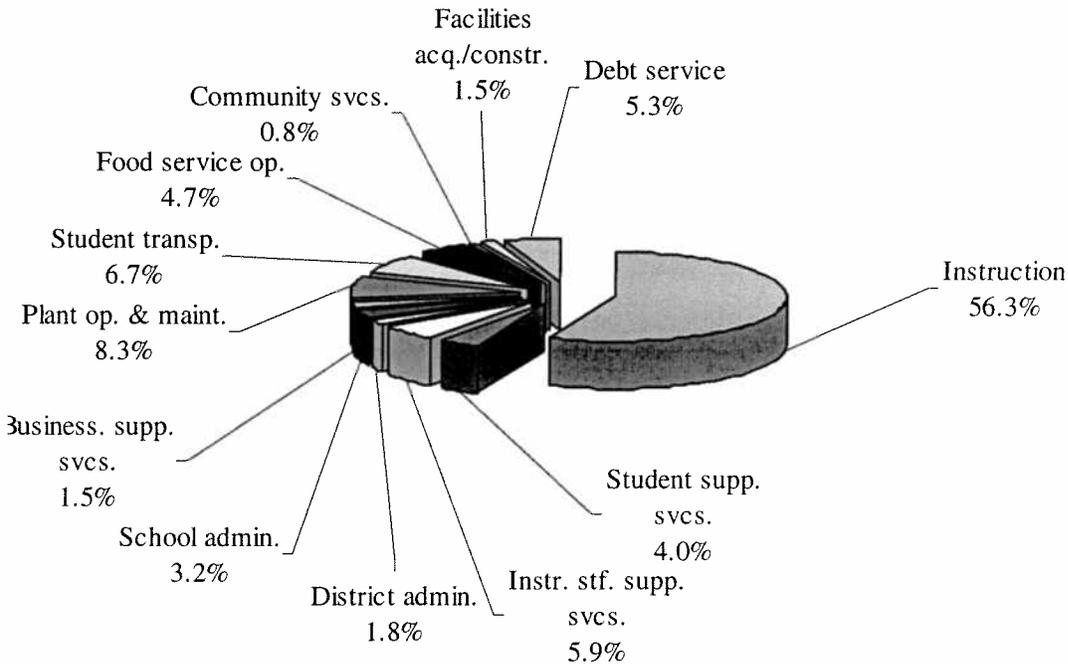


**SHELBY COUNTY SCHOOL DISTRICT – SHELBYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2008**

Table 3  
Shelby County Public School District  
Expenditures  
For the year ended June 30, 2008

	<b>Governmental Activities</b>	<b>Business –type Activities</b>	<b>School District Total</b>	<b>Pct.</b>
Instruction	\$33,355,025	\$424,990	\$33,780,015	56.3%
Student support services	2,419,254	-	2,419,254	4.0%
Instructional staff support services	3,568,323	-	3,568,323	5.9%
District administration	1,074,916	-	1,074,916	1.8%
School administration	1,927,086	-	1,927,086	3.2%
Business support services	896,711	-	896,711	1.5%
Plant operations and maintenance	5,000,313	-	5,000,313	8.3%
Student transportation	4,055,029	-	4,055,029	6.7%
Food service operations	381,765	2,461,251	2,843,016	4.7%
Community services	484,124	-	484,124	0.8%
Facilities acquisition & construction	885,216	-	885,216	1.5%
Debt service	3,216,781	-	3,216,781	5.3%
	<b>\$57,264,543</b>	<b>\$2,886,241</b>	<b>\$60,150,784</b>	<b>100.0%</b>

**2007/2008 Expenditures**



**SHELBY COUNTY SCHOOL DISTRICT – SHELBYVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2008**

**BUDGETARY IMPLICATIONS**

**Contingency**

By law the District must have at least a 2% contingency for budgetary purposes, while the Kentucky Department of Education encourages local school districts to consider a 5% budget reserve. The District ended the year with contingency of \$4,298,997, or 6.5% of the combined budgeted expenses in the General Fund (excluding contingency), Special Revenue Fund, Capital Outlay Fund, Building Fund, and Food Service Fund.

**Presentation of Revenues and Expenditures**

The “on behalf” payments are required to be presented as part of both revenues and expenditures. This requirement may be somewhat confusing, so we have presented the following summary to show the actual and budgeted revenues and expenditures without these payments:

	Including On Behalf Payments	Less: On Behalf Payments	Excluding On Behalf Payments	Budget	Favorable Variance
Total Revenues	\$47,388,275	\$8,252,696	\$39,135,579	\$38,895,197	\$240,382
Total Expenditures	46,480,704	8,252,696	38,228,008	44,113,123	5,885,115
Excess (deficit) of revenues over (under) expenditures	\$907,571	\$-	\$907,571	\$(5,217,926)	\$6,125,497

The District’s remaining contingency of \$4.3 million is included in budgeted expenditures.

**Budget Approach**

For many years, the District has prepared its budget in a conservative manner. A sizable fund balance at the beginning of the year is important since the majority of the District’s tax revenue is not received until approximately five months into the fiscal year. The District’s fund balance is used to offset the delay in tax receipts for the year.

In addition, the District receives approximately half of its funding from state sources. As a result, it is important that the District continues to budget conservatively due to periodic changes in state funding, such as cuts in state grants and adjustments to SEEK appropriations.

**CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District’s finances and to demonstrate the District’s accountability for the public funds it receives. If you have questions about this report or need additional financial information, contact Greg Murphy, Director of Finance, Shelby County Public Schools, 1155 Main Street, Shelbyville, Kentucky 40065. He can also be reached by electronic mail at [greg.murphy@shelby.kyschools.us](mailto:greg.murphy@shelby.kyschools.us) or by telephone at 502-633-2375.

**SHELBY COUNTY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2008**

<b>Assets</b>	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
<b><u>Current Assets</u></b>			
Cash & Cash Equivalents	\$ 28,050,112.51	\$ 759,551.62	\$ 28,809,664.13
Investments	24,254.44	-	24,254.44
Inventory	-	25,857.84	25,857.84
Accounts Receivable	662,633.83	-	662,633.83
Due From Other Funds	48,607.59	-	48,607.59
Total Current Assets	\$ 28,785,608.37	\$ 785,409.46	\$ 29,571,017.83
<b><u>Noncurrent Assets</u></b>			
Capital Assets	\$ 96,045,478.55	\$ 1,455,395.36	\$ 97,500,873.91
Accumulated Depreciation	(26,367,784.37)	(999,793.86)	(27,367,578.23)
Construction In Progress	885,215.82	-	885,215.82
Total Noncurrent Assets	\$ 70,562,910.00	\$ 455,601.50	\$ 71,018,511.50
<b><u>Other Assets</u></b>			
Bond Issue Costs - Net	\$ 335,086.00	-	\$ 335,086.00
Total Assets	<u>\$ 99,683,604.37</u>	<u>\$ 1,241,010.96</u>	<u>\$ 100,924,615.33</u>
<b>Liabilities &amp; Net Assets</b>			
<b><u>Current Liabilities</u></b>			
Accounts Payable	\$ 502,363.12	\$ 3,051.78	\$ 505,414.90
Due To Other Funds	-	48,607.59	48,607.59
Deferred Revenue	635,466.36	-	635,466.36
Current Portion Of Bond Obligations	1,679,976.00	-	1,679,976.00
Current Portion Of Accrued Sick Leave	115,000.00	-	115,000.00
Total Current Liabilities	\$ 2,932,805.48	\$ 51,659.37	\$ 2,984,464.85
<b><u>Noncurrent Liabilities</u></b>			
Noncurrent Portion Of Bond Obligations	\$ 31,731,200.00	-	\$ 31,731,200.00
Noncurrent Portion Of Accrued Sick Leave	399,047.00	-	399,047.00
Total Noncurrent Liabilities	\$ 32,130,247.00	-	\$ 32,130,247.00
Total Liabilities	<u>\$ 35,063,052.48</u>	<u>\$ 51,659.37</u>	<u>\$ 35,114,711.85</u>
<b><u>Net Assets</u></b>			
Invested In Capital Assets, Net Of Related Deb	\$ 37,151,734.00	\$ 455,601.50	\$ 37,607,335.50
Restricted For:			
Construction	-	-	-
Future Use	-	-	-
Unrestricted	27,468,817.89	733,750.09	28,202,567.98
Total Net Assets	<u>\$ 64,620,551.89</u>	<u>\$ 1,189,351.59</u>	<u>\$ 65,809,903.48</u>

See independent auditor's report and accompanying notes to financial statements.

**SHELBY COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

<b>FUNCTIONS / PROGRAMS</b>	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges For Services</b>	<b>Operating Grants &amp; Contributions</b>	<b>Capital Grants &amp; Contributions</b>
<b>Governmental Activities:</b>				
Instruction	\$32,849,637.07	\$ 10,400.00	\$ 41,439.50	\$ -
Support Services:				
Student	2,419,253.63	-	-	-
Instruction Staff	3,568,322.66	-	-	-
District Administration	1,074,916.17	-	-	-
School Administration	1,927,086.21	-	-	-
Business	896,711.17	-	-	-
Plant Operation & Maintenance	5,000,312.93	-	-	-
Student Transportation	3,657,197.39	7,406.44	-	-
Central Office	381,764.72	-	-	-
Facilities Acquisition & Construction	-	-	-	-
Community Service Activities	484,124.43	-	-	-
Operating Transfers	50,000.00	-	-	-
Interest On Long-Term Debt	1,594,123.06	-	-	-
Depreciation	2,433,655.88	-	-	-
<b>Total Governmental Activities</b>	<b>\$56,337,105.32</b>	<b>\$ 17,806.44</b>	<b>\$ 41,439.50</b>	<b>\$ -</b>
<b>Business Type Activities:</b>				
Food Service	\$ 2,645,977.89	\$1,191,360.36	\$ -	\$ -
Child Care	424,990.38	460,065.71	-	-
<b>Total Business Type Activities</b>	<b>\$ 3,070,968.27</b>	<b>\$1,651,426.07</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Primary Government</b>	<b>\$59,408,073.59</b>	<b>\$1,669,232.51</b>	<b>\$ 41,439.50</b>	<b>\$ -</b>

See independent auditor's report and accompanying notes to financial statements.

**SHELBY COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

**Net (Expense) Revenue And  
Changes In Net Assets**

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
	\$(32,797,797.57)	\$ -	\$(32,797,797.57)
	(2,419,253.63)	-	(2,419,253.63)
	(3,568,322.66)	-	(3,568,322.66)
	(1,074,916.17)	-	(1,074,916.17)
	(1,927,086.21)	-	(1,927,086.21)
	(896,711.17)	-	(896,711.17)
	(5,000,312.93)	-	(5,000,312.93)
	(3,649,790.95)	-	(3,649,790.95)
	(381,764.72)	-	(381,764.72)
	-	-	-
	(484,124.43)	-	(484,124.43)
	(50,000.00)	-	(50,000.00)
	(1,594,123.06)	-	(1,594,123.06)
	(2,433,655.88)	-	(2,433,655.88)
	<u>\$(56,277,859.38)</u>	<u>\$ -</u>	<u>\$(56,277,859.38)</u>
	\$ -	\$ (1,454,617.53)	\$ (1,454,617.53)
	-	35,075.33	35,075.33
	<u>\$ -</u>	<u>\$ (1,419,542.20)</u>	<u>\$ (1,419,542.20)</u>
	<u>\$(56,277,859.38)</u>	<u>\$ (1,419,542.20)</u>	<u>\$(57,697,401.58)</u>
<b>General Revenues:</b>			
Taxes:			
Property Taxes	\$ 17,098,790.12	\$ -	\$ 17,098,790.12
Motor Vehicles Taxes	1,122,647.67	-	1,122,647.67
Utility Taxes	3,082,238.14	-	3,082,238.14
Investment Earnings	1,426,247.82	28,605.41	1,454,853.23
State & Formula Grants	36,578,452.08	1,530,721.19	38,109,173.27
Gains On Sales Of Fixed Assets	18,202.33	-	18,202.33
Operating Transfers	145,142.37	50,000.00	
Miscellaneous	722,767.70	-	722,767.70
Change In Net Assets	\$ 3,916,628.85	\$ 189,784.40	\$ 3,911,270.88
Net Assets - Beginning	<u>\$ 60,703,923.04</u>	<u>\$ 999,567.19</u>	<u>\$ 61,703,490.23</u>
Net Assets - Ending	<u>\$ 64,620,551.89</u>	<u>\$ 1,189,351.59</u>	<u>\$ 65,809,903.48</u>

See independent auditor's report and accompanying notes to financial statements.

**SHELBY COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008**

	<b>General Fund</b>	<b>Special Revenue</b>
<b>Assets &amp; Resources:</b>		
Cash & Cash Equivalents	\$ 12,714,500.67	\$ 376,159.02
Accounts Receivable	363,658.51	335,023.03
Investments	24,254.44	-
Total Assets & Resources	<u>\$ 13,102,413.62</u>	<u>\$ 711,182.05</u>
 <b>Liabilities &amp; Fund Balances:</b>		
<b>Liabilities</b>		
Accounts Payable	\$ 335,006.45	\$ 75,715.69
Deferred Revenue	-	635,466.36
Sick Leave - Current Portion	115,000.00	-
Total Liabilities	\$ 450,006.45	\$ 711,182.05
 <b>Fund Balances:</b>		
Reserved:		
Reserved For Future Use	\$ -	\$ -
Unreserved:		
Undesignated, reported in:		
General Fund	\$ 12,652,407.17	\$ -
Special Revenue Funds	-	-
Capital Projects Funds	-	-
Permanent Funds	-	-
Total Fund Balances	<u>\$ 12,652,407.17</u>	<u>\$ -</u>
Total Liabilities & Fund Balances	<u>\$ 13,102,413.62</u>	<u>\$ 711,182.05</u>

See independent auditor's report and accompanying notes to financial statements.

**SHELBY COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008**

<b>Construction Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$14,797,512.50	\$ 161,940.32	\$28,050,112.51
-	12,559.88	711,241.42
-	-	24,254.44
<u>\$14,797,512.50</u>	<u>\$ 174,500.20</u>	<u>\$28,785,608.37</u>
\$ 91,640.98	\$ -	\$ 502,363.12
-	-	635,466.36
-	-	115,000.00
<u>\$ 91,640.98</u>	<u>\$ -</u>	<u>\$ 1,252,829.48</u>
\$14,705,871.52	\$ 174,500.20	\$14,880,371.72
\$ -	\$ -	\$12,652,407.17
-	-	-
-	-	-
-	-	-
<u>\$14,705,871.52</u>	<u>\$ 174,500.20</u>	<u>\$27,532,778.89</u>
<u>\$14,797,512.50</u>	<u>\$ 174,500.20</u>	<u>\$28,785,608.37</u>

See independent auditor's report and accompanying notes to financial statements.

**SHELBY COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008**

Total fund balance per fund financial statements	\$ 27,532,778.89
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	69,677,694.18
Certain long-term assets are not reported in this fund financial statements because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.	885,215.82
Certain liabilities (such as bonds payable and the long-term portion of accrued sick leave) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets	(33,475,137.00)
Net assets for governmental activities	<u>\$ 64,620,551.89</u>

See independent auditor's report and accompanying notes to financial statements.

**SHELBY COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	General Fund	Special Revenue
<b>Revenues:</b>		
From local sources		
Taxes		
Property	\$ 12,675,047.71	\$ -
Motor Vehicle	975,580.82	-
Utilities	3,082,238.14	-
Revenue In Lieu Of Taxes	22,932.00	-
Tuition And Fees	10,400.00	-
Earnings On Investments	1,036,947.82	4,710.00
Other Local Revenues	365,200.53	383,481.11
Intergovernmental - Intermediate		-
Intergovernmental - State	29,174,378.60	3,470,151.09
Intergovernmental - Indirect Federal	-	2,752,490.88
Intergovernmental - Direct Federal	45,549.51	-
Total Revenues	<u>\$ 47,388,275.13</u>	<u>\$ 6,610,833.08</u>
<b>Expenditures</b>		
Instruction	\$ 29,246,164.68	\$ 4,108,860.47
Support Services:		
Student	1,853,993.79	565,259.84
Instruction Staff	2,215,445.10	1,352,877.56
District Administration	1,074,916.17	-
School Administrative	1,908,651.58	18,434.63
Business	896,711.17	-
Plant Operation & Maintenance	5,000,312.93	-
Student Transportation	3,902,743.86	152,285.15
Central Office	381,764.72	-
Facilities Acquisition & Maintenance	-	-
Community Service Activities	-	484,124.43
Debt Service	-	-
Total Expenditures	<u>\$ 46,480,704.00</u>	<u>\$ 6,681,842.08</u>
<b>Excess (Deficit) Of Revenues Over Expenditures</b>	<b>\$ 907,571.13</b>	<b>\$ (71,009.00)</b>
<b>Other Financing Sources (Uses)</b>		
Proceeds From Sale Of Bonds	\$ -	\$ -
Proceeds From Sale Of Fixed Assets	18,202.33	-
Operating Transfers In	145,142.37	71,009.00
Operating Transfers Out	(3,105,722.00)	-
Total Other Financing Sources (Uses)	<u>\$ (2,942,377.30)</u>	<u>\$ 71,009.00</u>
<b>Excess (Deficit) Of Revenue &amp; Other Financing Sources Over Expenditures &amp; Other Financing Uses</b>	<b>\$ (2,034,806.17)</b>	<b>\$ (0.00)</b>
<b>Fund Balance, July 1, 2007</b>	<b>14,687,213.34</b>	<b>-</b>
	<u>14,687,213.34</u>	<u>-</u>
<b>Fund Balance, June 30, 2008</b>	<u><b>\$ 12,652,407.17</b></u>	<u><b>\$ (0.00)</b></u>

See independent auditor's report and accompanying notes to financial statements.

**SHELBY COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

Construction Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 4,423,742.41	\$ 17,098,790.12
-	147,066.85	1,122,647.67
-	-	3,082,238.14
-	-	22,932.00
-	-	10,400.00
-	384,590.00	1,426,247.82
-	-	748,681.64
-	-	-
-	1,135,882.00	33,780,411.69
-	-	2,752,490.88
-	-	45,549.51
\$ -	\$ 6,091,281.26	\$ 60,090,389.47
\$ -	\$ -	\$ 33,355,025.15
-	-	2,419,253.63
-	-	3,568,322.66
-	-	1,074,916.17
-	-	1,927,086.21
-	-	896,711.17
-	-	5,000,312.93
-	-	4,055,029.01
-	-	381,764.72
885,215.70	-	885,215.70
-	-	484,124.43
-	3,216,781.06	3,216,781.06
\$ 885,215.70	\$ 3,216,781.06	\$ 57,264,542.84
\$ (885,215.70)	\$ 2,874,500.20	\$ 2,825,846.63
\$ -	\$ -	\$ -
-	-	18,202.33
15,764,403.32	-	15,980,554.69
(3,322,988.65)	(9,456,701.67)	(15,885,412.32)
\$ 12,441,414.67	\$ (9,456,701.67)	\$ 113,344.70
\$ 11,556,198.97	\$ (6,582,201.47)	\$ 2,939,191.33
3,149,672.55	6,756,701.67	24,593,587.56
-	-	-
\$ 14,705,871.52	\$ 174,500.20	\$ 27,532,778.89

See independent auditor's report and accompanying notes to financial statements.

**SHELBY COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

Net change in total fund balances per fund financial statements	\$ 2,939,191.33
Amounts reported for governmental activities in the statement of activities are different because of the following:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	(645,220.48)
Debt service payments are reported as expenditures in this fund financial statement because they use current financial resources, but they are separated and shown as payments of long term debt on the statement of net assets and interest expense on the statement of activities. The difference is the amount of principal payment made for the year.	1,622,658.00
	<hr/>
Change in net assets of governmental activities.	<u><u>\$ 3,916,628.85</u></u>

See Independent auditor's report and accompanying notes to financial statements.

**SHELBY COUNTY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2008**

<b>Assets</b>	<b>Food Service Fund</b>	<b>Other Enterprise Funds</b>	<b>Total</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b><u>Current Assets</u></b>			
Cash & Cash Equivalents	\$ 666,516.17	\$ 93,035.45	\$ 759,551.62
Inventory	25,857.84	-	25,857.84
Accounts Receivable	-	-	-
Due From Other Funds	-	-	-
Investments	-	-	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Current Assets	\$ 692,374.01	\$ 93,035.45	\$ 785,409.46
<b><u>Noncurrent Assets</u></b>			
Capital Assets	\$ 1,455,395.36	\$ -	\$ 1,455,395.36
Accumulated Depreciation	<u>(999,793.86)</u>	<u>-</u>	<u>(999,793.86)</u>
Total Noncurrent Assets	<u>\$ 455,601.50</u>	<u>\$ -</u>	<u>\$ 455,601.50</u>
Total Assets	<u><u>\$ 1,147,975.51</u></u>	<u><u>\$ 93,035.45</u></u>	<u><u>\$ 1,241,010.96</u></u>
<b>Liabilities &amp; Net Assets</b>			
<b><u>Current Liabilities</u></b>			
Accounts Payable	\$ -	\$ 3,051.78	\$ 3,051.78
Accrued Payroll & Related Expenses	-	-	-
Due To Other Funds	<u>48,607.59</u>	<u>-</u>	<u>48,607.59</u>
Total Current Liabilities	\$ 48,607.59	\$ 3,051.78	\$ 51,659.37
<b><u>Net Assets</u></b>			
Invested In Capital Assets, Net Of Related Debt	\$ 455,601.50	\$ -	\$ 455,601.50
Unrestricted	<u>643,766.42</u>	<u>89,983.67</u>	<u>733,750.09</u>
Total Net Assets	<u><u>\$ 1,099,367.92</u></u>	<u><u>\$ 89,983.67</u></u>	<u><u>\$ 1,189,351.59</u></u>

See Independent auditor's report and accompanying notes to financial statements.

**SHELBY COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Food Service Fund</u>	<u>Other Enterprise Fund</u>	<u>Total</u>
<b>Operating Revenues:</b>			
Lunchroom Sales	\$ 1,191,360.36	\$ -	\$ 1,191,360.36
Other Operating Revenues	-	460,065.71	460,065.71
	<hr/>	<hr/>	<hr/>
Total Operating Revenues	\$ 1,191,360.36	\$ 460,065.71	\$ 1,651,426.07
<b>Operating Expenses:</b>			
Salaries & Wages	\$ 1,136,251.83	\$ 402,386.45	\$ 1,538,638.28
Materials & Supplies	1,213,603.34	21,003.76	1,234,607.10
Depreciation	71,992.57	-	71,992.57
Other Operating Expenses	78,987.78	1,600.17	80,587.95
	<hr/>	<hr/>	<hr/>
Total Operating Expenses	\$ 2,500,835.52	\$ 424,990.38	\$ 2,925,825.90
Income (Loss) From Operations	\$ (1,309,475.16)	\$ 35,075.33	\$ (1,274,399.83)
<b>Non-Operating Revenues (Expenses)</b>			
Federal Grants	\$ 1,499,943.19	\$ -	\$ 1,499,943.19
State Grants	30,778.00	-	30,778.00
Transfers In (Out)	(145,142.37)	50,000.00	(95,142.37)
Interest Income	28,605.41	-	28,605.41
	<hr/>	<hr/>	<hr/>
Total Non-Operating Revenues (Expenses)	\$ 1,414,184.23	\$ 50,000.00	\$ 1,464,184.23
Net Income (Loss)	\$ 104,709.07	\$ 85,075.33	\$ 189,784.40
<b>Retained Earnings, July 1, 2007</b>	<hr/>	<hr/>	<hr/>
	\$ 994,658.85	\$ 4,908.34	\$ 999,567.19
<b>Retained Earnings, June 30, 2008</b>	<hr/>	<hr/>	<hr/>
	\$ 1,099,367.92	\$ 89,983.67	\$ 1,189,351.59

See independent auditor's report and accompanying notes to financial statements.



**SHELBY COUNTY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2008**

	<b>Private Purpose Trust Funds</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash & Cash Equivalents	\$ 307.65	\$ 524,660.41
Due From Other Funds	<u>-</u>	<u>-</u>
<b>Total Assets</b>	<b>\$ 307.65</b>	<b>\$ 524,660.41</b>
<b>Liabilities</b>		
Accounts Payable	\$ -	\$ -
Due To Student Groups	<u>-</u>	<u>217,676.25</u>
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 217,676.25</b>
<b>Net Assets Held In Trust</b>	<b><u>\$ 307.65</u></b>	<b><u>\$ 306,984.16</u></b>

See independent auditor's report and accompanying notes to financial statements.

**SHELBY COUNTY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2008**

	<b>Private Purpose Trust Funds</b>
<b>Revenues</b>	
Net Interest	\$ 2.57
Contributions	<u>17,500.00</u>
Total Revenues	\$ 17,502.57
<b>Expenditures</b>	
Supplies & Materials	<u>\$ 17,500.00</u>
Change In Net Assets	\$ 2.57
Net Assets, Beginning Of Year	<u>\$ 305.08</u>
Net Assets, End Of Year	<u><u>\$ 307.65</u></u>

See independent auditor's report and accompanying notes to financial statements.

**SHELBY COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Shelby County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Shelby County Board of Education (“District”). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Shelby County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Shelby County Board of Education Finance Corporation – In a prior year the Board of Education resolved to authorize the establishment of the Shelby County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-wide Financial Statements –are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities accompanied by a total column.

**SHELBY COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets as well long-term liabilities are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

The District applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the District applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for on the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statements of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financial sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the District are property tax and utility tax. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

**SHELBY COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 41. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
  - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan. This is a nonmajor fund of the District
  - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan. This is a nonmajor fund of the District.
  - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

**SHELBY COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

(D) Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost, and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a nonmajor fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

A. The Food Service and Summer Feeding Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the District.

B. The Child Care Fund is used to account for after-school revenues and programs where a fee is charged for participating. This is a major fund for the District.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

B. The Private Purpose Trust Fund accounts for the Pflughaupt Memorial Scholarship Fund under which principal and income are used to benefit individuals by providing scholarships.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

**SHELBY COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Basis of Accounting - continued

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2008 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Prepaid Expenses

Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. No prepaid expenses were recorded as of June 30, 2008.

Bond Issue Costs

Costs associated with the issuance of bond obligations, including fiscal and rating agency fees, paying agent fees, and attorney fees, are reported as expenditures in the governmental funds financial statements. These costs are capitalized and amortized over the lives of the respective bonds on the government-wide financial statements.

Interfund Balances

On the fund financial statements, receivable and payables resulting from short-term interfund loans are classified as due from or to the other funds. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as interfund balances.

**SHELBY COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of technology purchases for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	20-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
General Equipment	15 years
Food service equipment	12 years
Infrastructure	20 years

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

**SHELBY COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The non-current portion of the liability is not reported.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2008, to finance the General Fund operations were \$.637 per \$100 valuation for real property, \$.664 per \$100 valuation for business personal property and \$.421 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the district, of telephonic and telegraphic communications services, electric power, water, and natural, artificial and mixed gas.

**SHELBY COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

GASB 31 requires investments to be carried at fair value with unrealized changes being recorded in the statements of revenues, expenditures and changes in fund balance. The District invests in Fixed Income Government Issues, whose cost approximates fair value.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools, and fees charged for Day Care Services.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**SHELBY COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Encumbrance Accounting

Encumbrances are not liabilities, and therefore are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next fiscal year.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Budgetary amendments are made during the year to reflect new revenue sources and the receipt of the District's growth calculation.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

**NOTE 2– ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

At year-end, the carrying amount of the District's total cash and cash equivalents was \$28.8 million. Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's bank balances are covered by Federal Depository Insurance up to \$100,000 per financial institution, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

**SHELBY COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 3 – CASH AND CASH EQUIVALENTS - CONTINUED**

Breakdown per financial statements:

Governmental funds	\$ 28,074,674.60
Proprietary funds	<u>759,551.62</u>
	<u>\$ 28,834,226.22</u>

In addition to the cash and cash equivalents listed above, the district has agency funds that are not included in the governmental funds or the proprietary fund balances. The agency funds (school activity funds) at year end were \$523,660.

Cash is commingled in various bank accounts. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and Federal financial assistance programs, each cash amount within the following funds is considered to be restricted:

- Special Revenue Funds
- Facility Support Program (FSPK) Fund
- School Construction Fund
- Student Activity Funds
- Private Purpose Trust Fund

Funds of the District are considered to be public funds and therefore their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds.

**NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS**

The original amount of each issue, the issue date, and interest rates are summarized below:

Issue Date	Proceeds	Rates
2005	5,140,000	2.50-4.25%
2004	12,335,000	1.65-5.08%
2001	7,425,000	4.50-4.80%
1999	15,235,000	3.25-5.14%
1999	9,325,000	4.00-4.35%
1998	3,055,000	3.85-4.25%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The district has entered into “participation agreements” with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission’s option, bi-annually. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The table sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2008 for debt service (principal and interest) are as follows:

**SHELBY COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 4 - BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED**

Year		Total Requirement	Shelby County School District	
			Principal	Interest
2008	2009	3,209,555	1,679,976	1,529,579
2009	2010	3,215,410	1,754,541	1,460,869
2010	2011	3,144,802	1,751,177	1,393,625
2011	2012	3,147,123	1,828,546	1,318,577
2012	2013	3,133,767	1,876,891	1,256,876
2013	2014	3,132,807	1,960,792	1,172,015
2014	2015	3,128,925	2,047,624	1,081,301
2015	2016	3,060,660	2,075,967	984,693
2016	2017	3,060,031	2,174,773	885,258
2017	2018	3,059,033	2,277,975	781,058
2018	2019	3,059,899	2,388,017	671,882
2019	2020	3,063,186	2,507,440	555,746
2020	2021	3,063,231	2,625,563	437,668
2021	2022	2,296,161	1,983,341	312,820
2022	2023	2,246,810	2,030,757	216,053
2023	2024	2,199,823	2,082,796	117,027
2024	2025	380,513	365,000	15,513
2025	2026	-	-	-
Totals		<u>\$47,601,736</u>	<u>\$33,411,176</u>	<u>\$ 14,190,560</u>

**SHELBY COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 5 – RETIREMENT PLANS**

Kentucky Teachers' Retirement System

Certified employees participate in the Kentucky Teachers' Retirement System (KTRS), which is a cost sharing, multiple-employer retirement system created by and operating under Kentucky law.

The KTRS covers all certified full-time employees of each school board. The plan provides for retirement, disability and death benefits. KTRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the KTRS, 479 Versailles Road, Frankfort, Kentucky 40601-3800.

Participating employees contribute 9.855% of creditable compensation. Matching contributions are made by the state. The federal program for any salaries paid by that program pays the matching contributions. The District contributed 13.105% of the employee's compensation paid by federal programs for the fiscal year ended June 30, 2008. The Board of Trustees of the Kentucky Retirement Systems determines the contribution rates.

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2008 comprehensive annual financial report which is available from Kentucky Retirement Systems. A copy may be obtained from the Legislative Research Library in Frankfort, Kentucky

**Three-year Trend Information**

Fiscal Year Ended	Annual Amount Withheld from Employees	Annual Amount Contributed by the District	Total Amount Contributed
6/30/2006	2,315,618.00	192,422.00	2,508,040.00
6/30/2007	2,552,008.00	195,249.00	2,747,257.00
6/30/2008	2,786,261.24	195,215.82	2,981,477.06

County Employees Retirement System

Employees who work on average of 80 hours per month over their contract participate in the County Employees Retirement System (CERS), which is a cost sharing, multiple-employer public employee's retirement system created by and operating under Kentucky law.

The CERS covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The plan provides for retirement, disability, and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the CERS, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601-6124.

Participating employees contribute 5.00% of creditable compensation. The District contributed 16.17% of creditable compensation during the fiscal year ended June 30, 2008. The Board of Trustees of the Kentucky Retirement Systems determines the contribution rates.

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 2008 comprehensive annual financial report which is available from Kentucky Retirement Systems. A copy may be obtained from the Legislative Research Library in Frankfort, Kentucky.

**Three-year Trend Information**

Fiscal Year Ended	Annual Amount Withheld from Employees	Annual Amount Contributed by the District	Total Amount Contributed
6/30/2006	279,988.00	614,696.00	894,684.00
6/30/2007	303,702.00	801,187.00	1,104,889.00
6/30/2008	337,783.44	1,092,386.90	1,430,170.34

**SHELBY COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED JUNE 30, 2008**

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	2,419,344.00	-	-	2,419,344.00
Construction in progress	-	885,215.82	-	885,215.82
Total capital assets not being depreciated	2,419,344.00	885,215.82		3,304,559.82
Capital assets being depreciated				
Land Improvements	982,471.83			982,471.83
Bldg & Bldg. Improvements	85,078,949.01	-	-	85,078,949.01
Technology Equipment	779,092.16	435,012.00	(14,135.12)	1,199,969.04
Vehicles	5,699,864.91	427,851.47	(836,837.38)	5,290,879.00
General Equipment	554,400.60	40,356.23	(10,723.16)	584,033.67
Infrastructure	489,832.00	-	-	489,832.00
Total assets being depreciated	93,584,610.51	903,219.70	(861,695.66)	93,626,134.55
Less accumulated depreciation for				
Land Improvements	(591,963.00)	(37,549.70)		(629,512.70)
Bldg & Bldg Improvements	(19,536,496.63)	(1,822,523.30)		(21,359,019.93)
Technology Equipment	(366,450.97)	(189,126.85)	15,735.24	(539,842.58)
Vehicles	(3,820,290.80)	(327,218.02)	836,837.38	(3,310,671.44)
General Equipment	(382,548.48)	(32,746.42)	9,015.28	(406,279.62)
Infrastructure	(97,966.51)	(24,491.59)		(122,458.10)
Total accumulated depreciation	(24,795,716.39)	(2,433,655.88)	861,587.90	(26,367,784.37)
Total capital assets being depreciated, net	68,788,894.12	(1,530,436.18)	(107.76)	67,258,350.18
	\$71,208,238.12	(645,220.36)	(107.76)	\$70,562,910.00
<b>Governmental Activities Capital Assets, Net</b>				
<b>Business-type Activities</b>				
Capital assets being depreciated				
General Equipment	1,422,987.47	32,407.89	-	1,455,395.36
Total assets being depreciated	1,422,987.47	32,407.89	-	1,455,395.36
Less accumulated depreciation for				
General Equipment	(928,388.08)	(71,405.78)	-	(999,793.86)
Total accumulated depreciation	(928,388.08)	(71,405.78)	-	(999,793.86)
Total capital assets being depreciated, net	494,599.39	(38,997.89)		455,601.50
Business-type Activities Capital Assets, Net	\$494,599.39	(38,997.89)		\$455,601.50

**SHELBY COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 7 – COMMITMENTS**

Leases

All operating lease agreements for office equipments are cancelable lease agreements.

**NOTE 8 - CONTINGENCIES**

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

**NOTE 9 - INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

**NOTE 10 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro-rata basis.

**SHELBY COUNTY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED  
YEAR ENDED JUNE 30, 2008**

**NOTE 10 - RISK MANAGEMENT - CONTINUED**

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 11 - DEFICIT OPERATING BALANCES**

There are no funds of the District that currently have a deficit fund balance. There are also no funds having operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

**NOTE 12 - COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

**NOTE 13 - LITIGATION**

The District's lawyer has advised us that at the present time there are legal proceedings and claims that have risen in the ordinary course of its business and have not been finally adjudicated. Although there can be no assurance as to the ultimate disposition of these matters and the proceedings, it is the opinion of the school district's management based upon the information available at this time, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the results of operations and financial condition of the Shelby County School District.

**NOTE 14 – SUBSEQUENT EVENTS**

On October 3, 2008, Congress temporarily increased FDIC deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2009.

**SHELBY COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues:</b>			
Taxes			
Property	\$ 12,539,556.00	\$ 12,675,047.71	\$ 135,491.71
Motor Vehicle	899,376.00	975,580.82	76,204.82
Utilities	3,000,000.00	3,082,238.14	82,238.14
Revenue In Lieu Of Taxes	23,500.00	22,932.00	
Tuition And Fees	8,000.00	10,400.00	2,400.00
Earnings On Investments	1,137,500.00	1,036,947.82	(100,552.18)
Other Local Revenues	351,000.00	365,200.53	14,200.53
Intergovernmental - State	20,876,265.00	29,174,378.60	8,298,113.60
Intergovernmental - Direct Federal	60,000.00	45,549.51	(14,450.49)
Total Revenues	<u>\$ 38,895,197.00</u>	<u>\$ 47,388,275.13</u>	<u>\$ 8,493,646.13</u>
<b>Expenditures</b>			
Instruction	\$ 24,046,361.02	\$ 29,246,164.68	\$ (5,199,803.66)
Support Services:			
Student	1,682,092.00	1,853,993.79	(171,901.79)
Instruction Staff	2,262,372.16	2,215,445.10	46,927.06
District Administration	1,302,477.00	1,074,916.17	227,560.83
School Administrative	1,699,518.00	1,908,651.58	(209,133.58)
Business	836,019.00	896,711.17	(60,692.17)
Plant Operation & Maintenance	4,822,579.13	5,000,312.93	(177,733.80)
Student Transportation	3,157,898.00	3,902,743.86	(744,845.86)
Central Office	4,810.00	381,764.72	(376,954.72)
Total Expenditures	<u>\$ 39,814,126.31</u>	<u>\$ 46,480,704.00</u>	<u>\$ (6,666,577.69)</u>
<b>Excess (Deficit) Of Revenues Over Expenditures</b>	\$ (918,929.31)	\$ 907,571.13	\$ 1,827,068.44
<b>Other Financing Sources (Uses)</b>			
Proceeds From Sale Of Fixed Assets	\$ -	\$ 18,202.33	\$ 18,202.33
Contingency	(4,298,997.00)	-	4,298,997.00
Operating Transfers In	160,000.00	145,142.37	(14,857.63)
Operating Transfers Out	(3,105,722.00)	(3,105,722.00)	-
Total Other Financing Sources (Uses)	<u>\$ (7,244,719.00)</u>	<u>\$ (2,942,377.30)</u>	<u>\$ 4,302,341.70</u>
<b>Excess (Deficit) Of Revenue &amp; Other Financing Sources Over Expenditures &amp; Other Financing Uses</b>	\$ (8,163,648.31)	\$ (2,034,806.17)	\$ 6,129,410.14
<b>Fund Balance, July 1, 2007</b>	<u>8,163,648.31</u>	<u>14,687,213.34</u>	<u>6,523,565.03</u>
<b>Fund Balance, June 30, 2008</b>	<u><u>\$ -</u></u>	<u><u>\$ 12,652,407.17</u></u>	<u><u>\$ 12,652,407.17</u></u>

See independent auditor's report and accompanying notes to financial statements.

**SHELBY COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2008**

	<u>CFDA Number</u>	<u>Pass Through Number</u>	<u>Disbursements</u>
<b><u>U.S. Department Of Education</u></b>			
Passed through the Kentucky Department of Education			
Title I FY 2007	84.010	3100002-07	214,329.90
Title I FY 2008	84.010	3100002-08	<u>529,321.69</u>
			743,651.59
Title I School Improvement FY 2007	84.010A	0351-07-01	50,056.15
Title I School Improvement FY 2008	84.010A	0351-08-01	<u>57,049.49</u>
			107,105.64
Title I - Parent Involvement FY 2007	84.010B		1,957.10
Title I - Parent Involvement FY 2008	84.010B		<u>7,194.65</u>
			9,151.75
Title I - Tier 3 Deferred Amt FY 2007	84.010C		7,987.91
Title I - Tier 3 Deferred Amt FY 2008	84.010C		<u>7,481.64</u>
			15,469.55
Title I - Migrant Education Chapter I FY 2007	84.011	3110002-07	58,582.00
Title I - Migrant Education Chapter I FY 2008	84.011	3110002-08	<u>22,963.62</u>
			81,545.62
Title I - D Neglected/Delinquent	84.013		<u>15,750.00</u>
			15,750.00
Title V Innovative Programs FY 2007	84.298	3500002-07	6,213.52
Title V Innovative Programs FY 2008	84.298	3500002-08	<u>2,929.37</u>
			9,142.89
IDEA - B FY 2007	84.027	3810002-07	306,320.50
IDEA - B FY 2008	84.027	3810002-08	<u>960,249.12</u>
			1,266,569.62
IDEA - B Preschool FY 2008	84.173	3800002-08	<u>50,643.00</u>
			50,643.00
Title III Limited English Prof FY 2007	84.365	3300002-07	8,515.54
Title III Limited English Prof FY 2008	84.365	3300002-08	<u>111,478.00</u>
			119,993.54
Title III Imigrant FY 2007	84.011		<u>9,990.81</u>
			9,990.81
Title IC - Voc Carryforward FY 2007	84.048	4620732-07	281.46
Title IC - Voc Carryforward FY 2008	84.048	4620732-08	<u>881.00</u>
			1,162.46
Title IC - Basic Grant FY 2007	93.623		193.54
Title IC - Basic Grant FY 2008	93.623		<u>25,900.05</u>
			26,093.59
Community Bases Work Transition FY 2008			<u>935.00</u>
			935.00
Title II - A Teacher Quality	84.367	3230002-08	<u>230,257.21</u>
			230,257.21
Title IV - Safe and Drug Free	84.186	3410002-08	<u>22,143.00</u>
			22,143.00
Title II - D Ed Technology FY 2007			2,467.75
Title II - D Ed Technology FY 2008			<u>1,829.00</u>
			4,296.75
Smaller Learning Communities FY 2005			<u>590.92</u>
			590.92
<b>Total U.S. Department Of Education</b>			<b>\$ 2,714,493</b>
Head Start FY 2008	93.6		<u>8,800.00</u>
			8,800.00
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 8,800.00</b>
<b><u>U.S. Department of Agriculture</u></b>			
Passed through the Kentucky Department of Education			
National School Lunch Program	10.555		\$ 1,057,245
National School Breakfast	10.553		391,594
National Summer Meal Program	10.559		<u>84,169</u>
<b>Total U.S. Department of Agriculture</b>			<b>\$ 1,533,008</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 4,256,301</b>

**SHELBY COUNTY SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2008**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Shelby County School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Total value of commodities received by the food service operation for the year ended June 30, 2008 was \$51,835.54.

**SHELBY COUNTY SCHOOL DISTRICT  
COMBINING BALANCE SHEET FOR CAPITAL PROJECTS  
AS OF JUNE 30, 2008**

	Capital Outlay Fund	Building Fund	Totals
<b>Assets &amp; Resources:</b>			
Cash & Cash Equivalents	\$ -	\$ 161,940.32	\$ 161,940.32
Accounts Receivable	-	12,559.88	12,559.88
Investments	-	-	-
	<hr/>	<hr/>	<hr/>
Total Assets & Resources	<u>\$ -</u>	<u>\$ 174,500.20</u>	<u>\$ 174,500.20</u>
 <b>Liabilities &amp; Fund Balances:</b>			
<b>Liabilities</b>			
Accounts Payable	\$ -	\$ -	\$ -
Deferred Revenue	-	-	-
	<hr/>	<hr/>	<hr/>
Total Liabilities	\$ -	\$ -	\$ -
 <b>Fund Balances:</b>			
Reserved:			
Reserved For Future Use			-
Capital Projects Funds	\$ -	\$ 174,500.20	\$ 174,500.20
	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>\$ -</u>	<u>\$ 174,500.20</u>	<u>\$ 174,500.20</u>
	<hr/>	<hr/>	<hr/>
Total Liabilities & Fund Balances	<u>\$ -</u>	<u>\$ 174,500.20</u>	<u>\$ 174,500.20</u>

**SHELBY COUNTY SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - CAPITAL PROJECTS  
FOR THE YEAR ENDED JUNE 30, 2008**

	Capital Outlay Fund	Building Fund	Totals
<b>Revenues:</b>			
From local sources			
Taxes			
Property	\$ -	\$ 4,423,742.41	\$ 4,423,742.41
Motor Vehicle	-	147,066.85	147,066.85
Utilities	-	-	-
Tuition And Fees	-	-	-
Earnings On Investments	-	384,590.00	384,590.00
Other Local Revenues	-	-	-
Intergovernmental - Intermediate	-	-	-
Intergovernmental - State	559,110.00	576,772.00	1,135,882.00
Intergovernmental - Indirect Federal	-	-	-
Intergovernmental - Direct Federal	-	-	-
Total Revenues	<u>\$ 559,110.00</u>	<u>\$ 5,532,171.26</u>	<u>\$ 6,091,281.26</u>
<b>Expenditures</b>			
Instruction	-	-	-
Support Services:			
Student	-	-	-
Instruction Staff	-	-	-
District Administration	-	-	-
School Administrative	-	-	-
Business	-	-	-
Plant Operation & Maintenance	-	-	-
Student Transportation	-	-	-
Central Office	-	-	-
Facilities Acquisition & Maintenance	-	-	-
Community Service Activities	-	-	-
Debt Service	559,110.00	2,657,671.06	3,216,781.06
Total Expenditures	<u>\$ 559,110.00</u>	<u>\$ 2,657,671.06</u>	<u>\$ 3,216,781.06</u>
<b>Excess (Deficit) Of Revenues Over Expenditures</b>	<u>\$ -</u>	<u>\$ 2,874,500.20</u>	<u>\$ 2,874,500.20</u>
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In	\$ -	\$ -	\$ -
Operating Transfers Out	-	(9,456,701.67)	(9,456,701.67)
Total Other Financing Sources (Uses)	<u>\$ -</u>	<u>\$ (9,456,701.67)</u>	<u>\$ (9,456,701.67)</u>
<b>Excess (Deficit) Of Revenue &amp; Other Financing Sources Over Expenditures &amp; Other Financing Uses</b>	<u>\$ -</u>	<u>\$ (6,582,201.47)</u>	<u>\$ (6,582,201.47)</u>
<b>Fund Balance, July 1, 2007, As Originally Stated</b>	<u>\$ -</u>	<u>\$ 6,756,701.67</u>	<u>\$ 6,756,701.67</u>
<b>Prior Period Adjustment</b>			
<b>Fund Balance, June 30, 2008</b>	<u><u>\$ -</u></u>	<u><u>\$ 174,500.20</u></u>	<u><u>\$ 174,500.20</u></u>

**SHELBY COUNTY SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CASH BALANCE  
ALL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Cash Balance July 1, 2007</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Cash Balance June 30, 2008</b>
Shelby County High School	\$ 219,643.25	\$ 647,907.02	\$ 698,010.90	\$ 169,539.37
Painted Stone Elementary School	32,870.96	53,578.50	35,424.48	51,024.98
Shelby County West Middle School	48,054.73	127,622.92	135,761.22	39,916.43
Cropper Education Center	2,287.55	317.05	1,241.87	1,362.73
Southside Elementary School	4,800.61	27,447.19	16,813.63	15,434.17
Heritage Elementary School	51,039.68	73,254.61	53,560.68	70,733.61
Simpsonville Elementary School	41,475.31	62,983.97	53,382.19	51,077.09
Clear Creek Elementary School	15,514.64	69,693.10	67,622.50	17,585.24
Wright Elementary School	47,331.33	44,985.37	32,255.65	60,061.05
Shelby County East Middle School	42,088.77	10,411.83	4,574.86	47,925.74
<b>Totals</b>	<b>\$ 505,106.83</b>	<b>\$1,118,201.56</b>	<b>\$1,098,647.98</b>	<b>\$ 524,660.41</b>

**SHELBY COUNTY SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CASH BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	Cash Balance July 1, 2007	Receipts	Disbursements	Transfers	Cash Balance June 30, 2008
Art (Eyster)	\$630.67	\$8,512.50	\$8,323.10	\$ 13.00	\$833.07
ESL	135.33	111.00	212.91	131.01	164.43
Business	606.95	-	-	-	606.95
Chorus	457.70	24,349.90	18,213.06	(3,784.04)	2,810.50
Drama	3,945.94	6,263.65	5,501.79	-	4,707.80
English	2.00	-	-	-	2.00
Foreign Language	83.94	219.00	490.25	193.77	6.46
Guidance	1,384.69	5,772.00	5,855.36	-	1,301.33
Health & PE	269.52	338.50	576.80	47.94	79.16
Family & Consumer	-	47.94	-	(47.94)	-
Industrial Tech	509.39	1,554.83	1,554.83	-	509.39
Orchestra	333.97	2,431.63	2,404.67	(323.19)	37.74
Science	119.46	208.00	216.45	-	111.01
Social Studies	236.53	1,158.45	1,219.98	-	175.00
Special Education	50.00	-	-	-	50.00
Technology	18.59	-	-	-	18.59
Art (Johnson)	13.00	-	-	(13.00)	-
Orchestra Tour Acc	-	6,501.56	-	(6,501.56)	-
Ceralde Classroom	253.80	250.00	50.00	-	453.80
Chorus Tour Fund	-	39,884.65	50,199.50	10,314.85	-
District Support Fund	-	7,000.00	6,999.76	-	0.24
Nolan & Nolan T Shirt	5,000.00	-	5,000.00	-	-
State Textbooks	16,648.36	2,708.77	4,693.50	-	14,663.63
General Fund	8,872.02	21,725.04	28,065.76	(2,067.55)	463.75
Hargadon Benevolence	320.02	-	-	-	320.02
Beverage & Snack	-	5,634.35	5,393.52	272.50	513.33
Flower Fund	-	-	-	-	-
Library & Copier	2,907.79	2,992.51	2,616.99	-	3,283.31
Staff Vending	-	1,396.19	3,877.10	2,572.97	92.06
Staff Development	1,412.87	-	1,400.00	-	12.87
SCHS Youth Service Center	-	175.00	-	(45.00)	130.00
Anime Club	409.81	130.00	-	161.15	700.96
Academic Team	350.45	4,066.00	4,007.68	-	408.77
Beta Club	5,062.67	6,261.03	5,531.70	(203.65)	5,588.35
Student YMCA	-	4,159.00	4,430.11	305.00	33.89
Chess Club	-	150.00	-	161.15	311.15
Fellow Christian Athlete	1,068.72	676.00	633.97	-	1,110.75
Future Farmers	3,682.12	5,532.75	6,805.05	-	2,409.82
FCCLA	1,104.31	1,778.79	1,722.56	(33.20)	1,127.34
Role Play Club	322.30	-	-	(322.30)	-
Spirit Club	34.63	732.00	587.15	-	179.48
French Club	353.27	305.00	149.25	-	509.02
National Honor Society	83.90	596.30	266.30	-	413.90
SADD	45.60	-	-	-	45.60
Newspaper	780.95	1,640.00	2,368.50	-	52.45
Speech	391.26	-	-	(391.26)	-
Student Council	3,251.26	1,995.04	4,858.11	1,880.00	2,268.19

**SHELBY COUNTY SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CASH BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	Cash Balance July 1, 2007	Receipts	Disbursements	Transfers	Cash Balance June 30, 2008
Yearbook & Pictures	13,477.57	17,635.88	29,051.07	(82.56)	1,979.82
Harry Potter Book Club	94.25	175.00	270.00	0.75	-
Tech Student Assoc	-	1,565.50	1,384.68	-	180.82
Step Team Club	555.93	195.00	718.66	17.73	50.00
SCHS Fund For The Arts	2,165.20	-	350.00	-	1,815.20
FEA	1,189.68	124.00	563.89	-	749.79
Bible Study (FCA)	511.18	-	-	-	511.18
Spanish Honor Society	60.00	-	-	(60.00)	-
Spanish Club	148.18	90.00	104.41	(133.77)	-
Fishing Club	533.34	165.00	30.43	-	667.91
Craft Club	-	34.00	34.00	-	-
Peer Mediation	372.94	-	-	-	372.94
S.C. Jr Historical	122.97	424.00	532.50	-	14.47
Amnesty Club	640.81	291.50	255.05	-	677.26
Dance Team	1,517.91	21,973.19	20,680.76	175.00	2,985.34
Ping Pong Club	165.65	368.00	318.75	-	214.90
Latino Club	369.27	907.50	469.33	-	807.44
Black Achievers	1,868.77	4,594.80	2,062.74	-	4,400.83
Special Olympics Partner	259.29	-	217.50	-	41.79
Young Democrats	291.00	-	-	-	291.00
Young Republicans	212.00	-	155.00	-	57.00
Hispanic FCA	100.00	-	-	-	100.00
Jr KY Homebuilders	220.00	335.00	170.00	-	385.00
Class of 2007	1,728.97	-	1,728.97	-	-
Seniors 2008	8,883.72	9,062.10	16,110.05	(859.79)	975.98
Juniors 2009	887.55	20,206.25	10,456.03	(1,162.75)	9,475.02
Sophomores 2010	1,023.42	4,868.00	4,071.97	-	1,819.45
Freshman 2011	-	2,149.50	357.42	48.65	1,840.73
SCHS Prom Project	-	350.00	510.00	160.00	-
Class of 2006	1,510.45	-	1,491.24	(19.21)	0.00
General Athletics	4,243.59	11,224.57	12,793.28	(2,275.59)	399.29
Baseball	-	-	15,562.45	15,562.45	-
Basketball - Boys	-	390.00	11,992.46	11,602.46	-
Basketball - Girls	-	686.00	8,897.49	8,211.49	-
Cheerleaders	1,840.00	10,602.10	13,189.54	747.44	-
Cross Country - Boys	-	780.00	2,368.28	1,588.28	-
Cross Country - Girls	-	705.00	1,732.60	1,057.60	30.00
Football	1,460.00	2,630.00	30,601.96	29,909.33	3,397.37
Golf - Boys	-	375.00	1,970.00	1,595.00	-
Golf - Girls	-	140.00	3,607.67	3,467.67	-
Soccer - Boys	-	1,335.00	5,133.97	3,798.97	-
Softball	-	-	7,064.83	7,064.83	-
Summer Softball	5,891.82	12,841.05	12,259.39	522.20	6,995.68
Swim Team	-	-	3,677.23	3,677.23	-
Tennis - Boys	-	-	695.40	695.40	-
Tennis - Girls	-	499.50	1,184.95	685.45	-

**SHELBY COUNTY SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CASH BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	Cash Balance July 1, 2007	Receipts	Disbursements	Transfers	Cash Balance June 30, 2008
Track - Boys	-	-	2,772.05	2,772.05	-
Track - Girls	-	-	3,097.50	3,097.50	-
Athletic Gate	115.00	78,029.18	4,286.00	(73,816.18)	42.00
Summer Football	14,674.49	22,091.91	32,134.62	(3,051.22)	1,580.56
Sports Banners	-	5,450.00	2,173.86	(2,357.41)	918.73
Asst Athletic Director	-	-	-	-	-
Summer Boys Basketball	1,027.94	6,775.00	10,061.29	2,258.35	-
C & H Fund	1,110.00	-	-	-	1,110.00
Soccer - Girls	-	945.00	3,344.67	2,404.67	5.00
Volleyball - Girls	1,081.25	660.00	7,168.72	5,427.47	-
Summer Volleyball	-	10,950.77	7,641.63	(2,174.29)	1,134.85
Volleyball District	-	1,130.00	931.69	(198.31)	-
Spirit	550.01	3,255.10	4,485.00	679.89	-
Athletic Fees	168.28	8,705.00	5,100.00	(3,773.28)	-
Boys B-Ball State Tournament	-	14,316.10	16,153.44	1,837.34	-
Baseball Regionals	-	-	-	-	-
Sports Program	2,976.00	5,498.00	4,250.00	(4,224.00)	-
Athletic Assist Fund	1,000.00	-	-	-	1,000.00
Summer Baseball	2,207.81	42,454.84	32,071.78	(416.80)	12,174.07
Summer Girls B-Ball	631.61	5,355.00	10,043.31	4,180.83	124.13
Summer Boys X-Country	4,103.27	3,894.15	3,992.75	-	4,004.67
Summer Girls X-Country	469.80	5,467.65	4,664.50	-	1,272.95
Summer Boys Golf	4,087.79	-	1,973.40	(338.00)	1,776.39
Summer Girls Golf	9,977.59	7,189.00	8,443.36	(1,600.00)	7,123.23
Summer Boys Soccer	3,115.63	1,908.90	2,564.49	500.00	2,960.04
Summer Girls Soccer	3,964.70	4,943.73	5,411.43	500.00	3,997.00
Summer Swimming	1,423.57	2,964.50	3,322.33	(575.00)	490.74
Summer Boys Tennis	434.70	300.00	119.80	-	614.90
Summer Girls Tennis	139.86	-	314.65	174.79	-
Summer Boys Track	-	6,058.50	4,808.19	200.00	1,450.31
Summer Girls Track	745.24	11,621.86	11,228.90	475.00	1,613.20
Athletic Booster Support	3,004.52	9,768.41	7,488.01	(5,284.92)	-
Athletic Season Pass	-	5,024.00	175.00	(4,849.00)	-
Summer Cheerleader	185.76	6,253.94	4,470.32	3.78	1,973.16
Girls Soccer District	5.00	-	-	(5.00)	-
Rocket Classic	-	-	-	-	-
Hurdle Girls Track	275.00	-	-	(275.00)	-
Girls B-Ball Camp	3,848.00	3,540.00	2,243.55	(3,180.83)	1,963.62
B-Ball Holiday Tournament	-	21,887.77	17,386.69	(4,145.00)	356.08
Girls B-Ball Regional	-	8,869.90	7,200.45	(1,669.45)	-
Boys B-Ball Camp	-	3,150.00	-	(1,508.35)	1,641.65
WHAS Excell-Larue	115.16	-	-	-	115.16
SCHS Farm	7,334.66	6,149.19	5,344.25	50.00	8,189.60
Choir Boosters Support	-	190.00	58.90	-	131.10
AP Examinations	17,215.21	22,599.00	35,862.00	-	3,952.21
ROTC Non Reimburse	3,218.87	1,573.89	1,884.96	400.00	3,307.80
Ernest Jennings Scholarship	100.00	1,500.00	1,500.00	-	100.00
SCHS Greenhouse	8,779.27	7,708.00	7,153.88	-	9,333.39
Walmart - Bell	859.37	-	170.99	-	688.38

**SHELBY COUNTY SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CASH BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Cash Balance July 1, 2007</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Transfers</u>	<u>Cash Balance June 30, 2008</u>
SCHS Theater	666.53	-	-	-	666.53
Nature Center	100.32	-	-	-	100.32
Success With Video	804.19	-	819.65	15.46	0.00
WHAS Excel - Cantrill	131.64	-	-	-	131.64
Walmart - E Jennings	255.08	-	-	-	255.08
W Wilson Project Acct	4,740.88	4,748.91	4,298.28	150.00	5,341.51
O'Neill GE Star Award	500.00	-	342.95	-	157.05
Totals	<u>219,643.25</u>	<u>647,907.02</u>	<u>698,010.90</u>	<u>(0.00)</u>	<u>169,539.37</u>

**SHELBY COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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**Section I-Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_yes \_\_\_X\_\_\_no
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_X\_\_\_yes \_\_\_\_\_none reported

Noncompliance material to financial statements noted? \_\_\_\_\_yes \_\_\_X\_\_\_no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_yes \_\_\_X\_\_\_no
- Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_yes \_\_\_X\_\_\_none reported

Type of auditor's report issued on compliance for major programs (unqualified): unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_yes \_\_\_X\_\_\_no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553,10.555, 10.559	Child Nutrition

Dollar threshold used to distinguish Between type A and type B programs: \$ \_\_\_300,000

Auditee qualified as low-risk auditee? \_\_\_X\_\_\_yes \_\_\_\_\_no

**SHELBY COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2008**

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**Section I – Summary of Auditor’s Results- Continued**

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Significant Deficiencies

**Internal Control – District Office**

2008-1

During our inspection of fixed assets we became aware of inconsistent control procedures associated with recording and maintaining the District’s inventory of fixed assets, and the depreciation of these assets. We recommend that the District implement a control procedure whereby the inventory of fixed assets is updated, reconciled and tested on a regular basis to promote accurate recording and representation of these assets

Shelby County School District Response- The school district will review their capitalization policy and make necessary changes.

**Internal Control – Activity Funds**

2008-2

During our inspection at Southside Elementary School, Simpsonville Elementary, Shelby Co High School, Shelby County East Middle School, Painted Stone Elementary, Heritage Elementary, Clear Creek Elementary, Wright Elementary, and Cropper Education Center, we found that there was no documentation to support the assertion that some of the deposit tickets were inspected by someone other than the Treasurer (or other party that may have completed the deposit ticket). We recommend that the district require documentation that shows that someone other than the preparer of the deposit ticket has reviewed the transaction before being deposited by showing two sets of initials on the deposit ticket form.

Shelby County School District Response-The school district required all accounting personnel to attend Redbook training. In addition to the Redbook training the Finance Officer will conduct random inspections of the school activity funds throughout the year.

2008-3

During our inspection we found that some of the Multiple Receipt Forms at Simpsonville Elementary, and Shelby County West Middle School, that we inspected contained only one signature. All Multiple receipt forms are to be signed and dated by both the person / teacher remitting the money and the Activity Fund Treasurer. We recommend that the district require the Multiple Receipt Form to contain two signatures before depositing the money collected.

Shelby County School District Response- The school district required all accounting personnel to attend Redbook training. In addition to the Redbook training the Finance Officer will conduct random inspections of the school activity funds throughout the year.

2008-4

During our inspection we found that some of the Multiple Receipt Forms at Heritage Elementary were not completed prior to submitting to the treasurer. All multiple receipt forms should be totaled before the form is submitted to the treasurer.

**SHELBY COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2008**

Shelby County School District Response- The school district required all accounting personnel to attend Redbook training. In addition to the Redbook training the Finance Officer will conduct random inspections of the school activity funds throughout the year.

2008-5

During our inspection we found that some of the purchase orders at Wright Elementary, Simpsonville Elementary, and Shelby County West Middle School were paid without proper authorization. We recommend that the principal sign all purchase orders prior to payment being made.

Shelby County School District Response- The school district required all accounting personnel to attend Redbook training. In addition to the Redbook training the Finance Officer will conduct random inspections of the school activity funds throughout the year.

2008-6

During our inspection we found that multiple receipt forms were not being used on a consistent basis at Shelby County High School. We recommend that multiple receipt forms should be used with all receipts.

Shelby County School District Response- The school district required all accounting personnel to attend Redbook training. In addition to the Redbook training the Finance Officer will conduct random inspections of the school activity funds throughout the year.

2008-7

During our inspection at Shelby County East Middle School, and Shelby County West Middle School we found the some purchase orders were approved without documentation attached. Documentation supporting the requested purchase order should be attached to all purchase orders.

Shelby County School District Response- The school district required all accounting personnel to attend Redbook training. In addition to the Redbook training the Finance Officer will conduct random inspections of the school activity funds throughout the year.

**SHELBY COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2008**

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**Section II – Financial Statement of Findings**

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No matters were reported.

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**Section III – Federal Award Findings and Questioned Costs**

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No matters were reported.

**SHELBY COUNTY SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2008**

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Section IV – Prior Year Audit Findings

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**Internal Control – District Office**

**Prior year comment** – Material Weakness- During inspection testing of cash for the School Food Service Fund it was noted the recorded cash balance as of June 30, 2007 did not reconcile to the June 30, 2007 bank statement.

**Current year follow-up** – No instances were noted during the current year.

# BROWN & COMPANY

## CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

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William G. Brown, CPA - W. Gilbert Brown III, CPA

### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board of Education  
Shelby County School District  
Shelbyville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate discretely presented component unit and remaining fund information of the Shelby County School District, as of and for the year ended June 30, 2008, which collectively comprise the Shelby County School District's basic financial statements and have issued our report thereon dated November 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of the *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organization, Appendix I to the Independent Auditor's Contract-General Audit Requirement, Appendix II to the Independent Auditor's Contract – State Audit Requirement, and Appendix III to the Independent Auditor's Contract – Electronic Submission*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shelby County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Shelby County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Shelby County School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Shelby County School District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. Reference numbers 2008-1-2008-7

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Shelby County School District's internal control.

the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shelby County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Shelby County School District, in a separate letter dated November 6, 2008.

Shelby County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the school board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brown & Company CPA's*

Bardstown, Kentucky  
November 6, 2008

# BROWN & COMPANY

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### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board of Education  
Shelby County School District  
Shelbyville, Kentucky

#### **Compliance**

We have audited the compliance of Shelby County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Shelby County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Shelby County School District's management. Our responsibility is to express an opinion on Shelby County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shelby County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Shelby County School District's compliance with those requirements.

In our opinion, Shelby County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

#### **Internal Control Over Compliance**

The management of Shelby County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Shelby County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Shelby County School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the school board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Brown & Company CPA's*

Bardstown, Kentucky  
November 6, 2008

## **MANAGEMENT LETTER COMMENTS**

# BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS  
FINANCIAL ADVISORS & BUSINESS CONSULTANTS

442 East Stephen Foster Avenue - PO Box 70 - Bardstown, Kentucky 40004 - Telephone (502) 349-3000 - Fax (502) 349-2059

William G. Brown, CPA - W. Gilbert Brown III, CPA

Members of the Board of Education of  
Shelby County School District  
Shelbyville, Kentucky

In planning and performing our audit of the financial statements of Shelby County School District for the year ended June 30, 2008, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated November 6, 2008 contains our report on the District's internal control structure. This letter does not affect our report dated November 6, 2008 on the financial statements of the Shelby County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Education, management, and others within the organization and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully,

*Brown & Company CPA's*

Bardstown, Kentucky  
November 6, 2008

**SHELBY COUNTY SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS  
YEAR ENDED JUNE 30, 2008**

**CURRENT YEAR COMMENTS**

**Activity funds**

Principals should open the bank statement, review and signed by the principal and then given to the treasurer for reconciliation.

Shelby County School District Management Response: We agree with the auditor's comment. While the Redbook for last year "suggested" that principals open the bank statement, the new Redbook requires that the principal open the bank statement and initial and date it prior to sending it to the treasurer (school secretary). This change was emphasized to principals and school secretaries at their Redbook training in August and they will be reminded of the importance of following this Redbook requirement.

**STATUS OF PRIOR YEAR FINDINGS AND POINTS**

**Prior year comment-** During inspection it was noted that an expenditure for calculators totaling \$39,557. Per KRS Chapter 424.260, this purchase required compliance with the state bid law procedures. In this instance the District did not request competitive bids.

**Current year follow-up** No similar instances were noted during the current year audit.

**Prior year comment** – During testing of payroll disbursements, it was noted one employee whose signed contract could not be located by the District.

**Current year follow-up** No similar instances were noted during the current year audit.